

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0978-01
Bill No.: HB 319
Subject: Elderly; Revenue Dept.; Taxation and Revenue-General and Income
Type: Original
Date: February 27, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$7,809,798)	(\$32,062,704)	(\$33,024,585)
Total Estimated Net Effect on <u>All</u> State Funds	(\$7,809,798)	(\$32,062,704)	(\$33,024,585)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this legislation increases the state income tax deduction for all retirement benefits from six thousand dollars to seven thousand two hundred dollars. It also increases the income thresholds to thirty thousand dollars if filing single, thirty-eight thousand dollars if married filing combined, and nineteen thousand two hundred fifty dollars if married filing separate. This legislation is effective January 1, 2002.

According to Budget and Planning, there are 40,612 additional taxpayers who will now qualify for the pension exemption. Therefore, the Department will not request additional FTE at this time. However, if the number of new taxpayers qualifying for this exemption is incorrect, the Department will need one Temporary Tax Season Employee for every 75,000 additional credits, one Tax Processing Tech I for every 30,000 additional errors generated and one Tax Processing Tech I for every 3,000 additional pieces of correspondence received regarding this credit. Any FTE needed will be requested during the normal budget process.

This legislation will require modifications to the individual income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 692 hours of contract labor, a cost of \$23,085. Modifications to tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$4,503 is requested for implementation costs.

Officials of the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal increases the income tax deduction for pension income to \$7,200 and increases the income limits to qualify for this deduction.

INCREASING THE DEDUCTION FROM \$6,000 TO \$7,200 FOR EXISTING FILERS

According to the Spring 2000 Statistics of Income there were 141,157 returns with income under \$20,000 and the average pension income claimed on these returns in tax year 1998 was \$6,688. Increasing the maximum deduction to \$7,200 would allow them to deduct an additional \$688. The revenue loss in FY99 would be \$5.8 million. A 6% marginal tax rate and a 3% annual growth rate are assumed.

According to the Spring 2000 Statistics of Income there were 71,235 returns with incomes between \$20,000 and \$30,000, and the average pension income claimed on these returns in tax year 1998 was \$10,615. Increasing the maximum deduction to \$7,200 would allow them to deduct an additional \$1,200. The revenue loss in FY99 would be \$5.1 million. A 6% marginal tax rate and a 3% annual growth rate are assumed.

ASSUMPTION (continued)

INCREASING THE INCOME LIMITS

Type of Return	Total Returns qualifying under new Income Limit	Maximum Deduction	Total Revenue Reduction in FY99
Single	24,270	\$7,200	\$10,484,593
Joint	15,915	\$7,200	\$6,875,379
Married Separate	427	\$6,688	\$171,444
Total	40,612		\$17,531,415

The above numbers are based on information from the Spring 2000 Statistics of Income and Budget and Planning's Individual Income Tax Simulator for tax year 1998. A 6% marginal tax rate and a 3% annual growth rate are assumed.

BAP staff assumes that taxpayers will not adjust their withholdings in FY02 to take advantage of this exemption. BAP estimates the Revenue loss in FY03 to be \$32.1 million and in FY04 to be \$33 million.

Oversight estimates a loss to the General Revenue Fund of \$7.8 million for FY 2002 due to the possibility of reduced withholding and estimated income tax payments for five months of calendar year 2002. Oversight assumes 25% of Missouri taxpayers would adjust payments, however it should be noted that this amount could be less depending on taxpayers' awareness of the deductibility of retirement benefits in determining state income tax and their desire to adjust withholdings or estimated payments

<u>FISCAL IMPACT - State Government</u>	FY 2002 (6 Mo.)	FY 2003	FY 2004
GENERAL REVENUE FUND			
<u>Costs - Dept. of Revenue</u>			
Programming	(\$27,588)	\$0	\$0
<u>Loss - General Revenue</u>			
Pension exemptions	<u>(\$7,782,210)</u>	<u>(\$32,062,704)</u>	<u>(\$33,024,585)</u>
TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$7,809,798)</u>	<u>(\$32,062,704)</u>	<u>(\$33,024,585)</u>

FISCAL IMPACT - Local Government

FY 2002 (6 Mo.)	FY 2003	FY 2004
\$0	\$0	\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This bill changes the state individual income tax treatment of public and private pension income received. Under current law, public source pension income received may be deducted from state income tax on the first \$6,000 of pension income received if the taxpayer's adjusted gross income is less than \$32,000 for married taxpayers and less than \$25,000 for single taxpayers. Private source pension income received may be deducted on the first \$5,000 received if the taxpayer's adjusted gross income is less than \$32,000 for married taxpayers and less than \$25,000 for single taxpayers.

After January 1, 2002, the bill will allow the first \$7,000 of all pension income received (both public and private) to be deducted if the taxpayer's adjusted gross income is less than \$38,000 for married taxpayers and less than \$30,000 for single taxpayers.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

This legislation will decrease Total State Revenues.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration
Division of Budget and Planning



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Director
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